
Session 8 (Day 5 Morning)

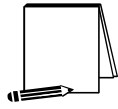
Economic Development Policy and Organizations

Session Overview

In today's world, local economic development policies and programs must respond to policies and programs at the international, national and regional levels. During this session, participants will explore what institutional support is necessary to sustain local economic development (LED) programs.

Session Objectives

- To identify the role economic development organizations have in improving economic conditions at different levels of government.
- To explore the respective functions of economic development organizations at each level.
- To provide examples of economic development organizations at various levels of government.



Trainer's Notes

3 hours

Plenary Discussion: Understanding the Objectives of Economic Development Agencies and Their Relationship with Local Economic Development Programs

This session should begin with a presentation on the objectives at four different levels—local, regional, national, and supranational. Through panel case studies, address the various functions carried about by different types of organizations and discuss why some functions more effectively improve the local economy if implemented at the regional, national, or supranational level.

10 min

1. Introduce the topic by asking participants about their knowledge of and experiences with external (regional, national, and supranational) organizations. Suggest that they think beyond economic development to reflect on an experience that was affected by a national or international event. This may include such experiences as addressing high unemployment created by more open trade policy in a country or the opportunity to work with other community organizations in an effort to save a major manufacturing firm in their community. Ask, “Do people in your community link their employment opportunities with decisions made by higher levels of government or international organizations?” “Have you ever worked collaboratively with other organizations or institutions in your community to solve a community problem?” “What did you learn from this experience?”

10 min

2. Use responses as a springboard to the morning’s discussion on the relationship between regional, national, and supranational institutions and LED programs and organizations. Following the talking points, emphasize that there are many benefits of working with other organizations. Point out that too often adjacent communities compete with one another to attract new businesses, only to lose the business to a different area entirely—one that perhaps worked better to market the entire region. Give an example or two, if appropriate.

60 min

3. Introduce the presentation by explaining why it addresses regional, national, and international organizations and their relationship to local economic development. Follow the talking points to discuss the functions and levels of economic development organizations.

75 min

4. After the first part of the session is over, introduce each of the panelists, with a sentence or two about the perspective they will share. Case study presentations from panelists should reflect different types of local economic development organizations as identified in the talking points. Allow each presenter 15 minutes to discuss the methods they used to determine what functions or activities to provide and how they capitalized on national and regional

economic development programs. After each presentation, encourage questions from the audience.

25 min

5. Conclude the discussion with an overview of the key learnings from the presentations. Discuss common themes. Participants should understand the nature of supranational organizations, the benefits they offer a particular country or region, and the steps necessary to come into compliance. They should be challenged to think about their own community and determine what person or institution could provide leadership, what are the needs of the community, what are its strengths and what community groups should be represented in an economic development organization. For example, bankers, industrialists, educators, and union leaders are just a few stakeholders who should be included.



Talking Points: Understanding the Objectives of Economic Development Agencies and Their Relationship with Local Economic Development Programs

There is a mismatch between economic boundaries and the political boundaries of local government units. People and commerce flow across arbitrarily established political boundaries, respecting the imaginary geographic boundaries defined by the opportunity cost of supply and demand. Corporate success and regional success, jobs and prosperity are all intertwined.¹ Many countries have economic development organizations that are able to address the complexity of local, regional, and national economic systems and industrial complexes.

Purpose and Functions of Economic Development Organizations

Economic development organizations provide overarching support and coordination for LED. They provide institutional structure for the implementation of economic development plans and structures. There are many types of organizations, and each organization may offer a menu of functions or activities. The primary purpose of economic development organizations, however, is to ensure that government support, capital, and a legislative framework conducive to successful business activities are provided in an efficient and coordinated fashion.

The objectives of a local economic development program dictate the various functions that are appropriate. Depending on the resources available within a single community, it may be necessary or more efficient to partner with higher-level organizations to provide a larger menu of activities. First, it is important to gain an understanding of the various functions, and then explore, through examples, at what level—local, regional, national or supranational—these functions are best addressed.

Support Functions

Business Inventory

Understanding the business activities of local firms, both manufacturing and service firms, forms the basis for the types of marketing, business incentives, and training programs that will strengthen the related firms. A systematic business retention inventory program can uncover this information. It should be noted, however, that the information you will be requesting is sensitive to businesses.

¹ Stafford, Bill and Sam Kaplan, “Greater Seattle’s Secrets of the Trade,” Association of Metropolitan Planning Organizations, p.1.

The business owners or managers may be uncomfortable at first, and it is extremely important that they understand clearly what you intend to do with the information. They need to understand that giving you the information will not result in a penalty from the government; that, in fact, you will be able to truly assist them in securing capital, new markets, or reduced business costs.

Product and Resource Marketing Programs

Based on the information derived from the business inventory survey, economic development organizations can develop a focused marketing program. Elements of such a program can include trade shows, both hosting and attending; brochures; and employment of a marketing representative. Key to this program is finding firms that are interested in investing in the types of products offered or are interested in locating in the region. Before doing mass marketing, the economic development organization should develop a marketing strategy.

Institutional Resource Inventory

Economic development programs should not be expected to implement all of the community's economic development projects or provide all of the services. Rather, the program should serve as a central clearinghouse that matches private business demands with other institutions in the community. One important function of the economic development staff is to put together a community-wide institutional resource inventory, one that allows both the local government and private firms to secure services or resources. For example, educational institutions, especially technical schools, could be asked to develop a new training program to retrain laborers.

Financial Functions

Investment Capital

Access to capital is key to business development and growth. Most businesses face two barriers: (1) general access to capital, and (2) accessing a sufficient amount of capital (due to their creditworthiness). A program that seeks to generate capital for business development should reduce the cost of capital resources such as land, buildings, and equipment and should lower interest rates.

International Capital

Joint ventures and foreign investments are two primary sources. A program in this area takes more than identifying companies interested in investing in the region. A two level program is necessary.

Venture Capital: This basically requires identifying foreign as well as local firms or investment agencies that have capital available or are interested in the acquiring access to a production line that supplements their own business development.

Investment Development Strategies: Local firms must be able to demonstrate that they have adopted efficient production methods so the investor can be guaranteed an acceptable, profitable rate of return. A good way to accomplish this is to work with companies that have successfully negotiated a foreign investment and learn from their successes. The best way to determine what is possible in the region is to replicate an investment success of a firm that already is part of a joint venture or has foreign investors. Identify any business that has successfully completed a joint venture, attracted foreign investment, determined a creative way to finance new production lines, etc. Their actions serve as a model for developing training programs in business investment strategies for companies willing to restructure or retool so that they can attract foreign investment.

Affordable Capital Resources

The cost of both physical and human capital must be affordable. It also must allow the firm to operate efficiently and competitively. Reducing the cost of capital while at the same time ensuring that the quality of life of the citizens in the region is maintained takes careful work and investment in the very people who will be employed by the firms. Here are a few examples of programs that contribute to reducing the cost of capital.

Capital Resource Identification: The economic development organization should create a list of all available land and buildings for new or expanded business development. This list should include information on ownership, rent/lease requirements, space, and structure (i.e., suited for commercial or industrial development).

Negotiated Lease Programs: Keeping the cost of building space low or at least stable, especially for small firms is critical to success, but often the owner of the business does not have the time or knowledge to negotiate a favorable lease. By working with the owners of the property (both private and public property owners), economic development staff can provide tenants for vacant space. In addition, the staff should work on arranging pre-negotiated lease conditions that benefit both the property owner as well as a new tenant. If the government owns the building, every effort should be made to secure a lease or purchase that provides revenues to the city, but is less than a market rent.

Human Capital: Labor is one of the most costly inputs in the production process. It is necessary to ensure that the value of the labor matches the desired output. Cheap, poorly trained labor is not the best way to meet this goal. Based on the needs identified in the business inventory, training programs should be developed

that will allow labor to be trained so that it adds value to the product in the most efficient way. This often means more sophisticated skills based on new, technology-driven production modes. Unfortunately, increasing efficiency in production does not always lead to more employment opportunities. More employment growth comes through business production expansions and growth.

Intergovernmental Functions

Governments may be members of an economic development organization. Whether they are or not, it is important to ensure that the public services required by business; the land and access to transportation, which support the competitiveness of business; and the regulatory permitting process are all available at the right time. In regards to higher levels of government, an economic development policy agenda should be developed based on input from the businesses in the area. Economic development staff should work with central government legislatures to pass favorable tax legislation, property rights, tariffs for utilities, labor laws, etc. Further, the staff should be aware of money that is available from the government for infrastructure and financial incentives.

Levels of Economic Development Organizations

Local Organizations

Community-based organizations most effectively deliver services to and communicate with the private sector. These organizations typically bring financial and training institutions, utility companies, landowners, and local government together. They also provide the vehicle by which to develop and implement the strategic plan that defines the LED program.

Sibiu County Economic Development Plan and Agency

The Economic Development Plan of Sibiu County, Romania, provides an overview of how community alliance can be built and sustained. The main goal and strategic objectives of the plan were identified following numerous discussions and in the light of conclusions reached by analysis of the county's and area's competitive potential. Changes in its geopolitical, social, and economic situation forced Sibiu County to confront its need to develop new means of existence. The plan recognizes that in today's competitive market environment, decisions have to be made locally, not imposed by Bucharest.

The mission of the plan describes Sibiu as a multifunctional area integrated into the Romanian and world economy that provides a favorable environment for life and economic activity. The plan is a consensual public contract under which authorities, businesses, and public organizations take upon themselves certain

obligations. Sibiu has a Local Development Board that involves community representatives in implementing the plan.

The overheads describe the institution created to implement the plan, stakeholders, mission, and results. The primary functions or activities provided by the Sibiu Economic Development Agency include:

1. Identify, conceive, and promote development programs
2. Support public authorities and the private sector
3. Provide specialized consulting services
4. Administer development programs
5. Represent Sibiu's interests in relation to the Regional Development Agency

Subnational or Regional Organizations

Strategic alliances seek to capitalize on the comparative advantages of sub-national units of government. Clustering occurs for a variety of reasons. For example, some regional clusters reflect a relationship based on a physical attribute such as the Rhine river basin region in Germany, or agricultural characteristics such as the Tokaj wine-producing region in Hungary. Together, such regions collectively address issues related to education, infrastructure, and civic leadership and jointly market the region's comparative advantages.

Cities of the Arc of the Jura Mountains Network, Switzerland²

Recognizing that long-term development requires a regional vision, the inter-regional organization, Cities of the Arc of the Jura Mountains Network, was formed. The focus of the organization was to develop a strategy for the cities within the network that targeted the industrial clustering of firms related to watch making. The Network marketed the region internationally and worked with businesses that reflected the social culture of the inhabitants.

National Organizations

National organizations are often the most effective at lobbying the government for the adoption of more favorable development legislation and programs. In most post Soviet Union and Eastern Bloc countries, national economic development organizations such as the Romania National Chamber of Commerce and Industry are mandated and funded by the central government, eliminating their effectiveness as lobbyists. They can, however, be a source of information for regional and local organizations to learn about available funding sources for capital improvements and international firms interested in investing in a country.

In developed countries, national organizations such as the Council for Urban Economic Development in the United States provide support and training for

² Marga Prohl, 1997, "Local Economic Development," Bertelsmann Foundation: Gutersloh.

economic development officers, while others such as the U.S. Chamber of Commerce lobby for favorable business legislation.

Supranational Organizations

Supranational regions are being formed to allow for more freedom in trade. They reduce trade barriers in several ways: one way is to create a supranational organization; another is to execute multinational trade agreements.³ In the E&E region the most influential organization is the European Union (EU).

The EU's objective is to create a collective voice for the region, forcing the restructuring of each country's industrial complex. The EU has four Structural Instruments (i.e., funds) that are designed as incentives for nations to develop programs and policies that comply with the EU's objective. The coordination of Structural Instruments seeks to concentrate resources, develop compatible programs, create partnerships, and generally add value to available resources through coordination. The Structural Instruments⁴ are the:

- European Regional Fund
- European Social Fund
- Agriculture Guidance and Guarantee Fund
- Cohesion Fund.

This coordination is accomplished by the creation of National Development Plans (NDPs). Countries seeking accession to the EU must demonstrate actions that bring corporate governance structures into being (i.e., efficient government bureaucracies and regulatory systems),⁵ reform financial institutions, and privatize industry. NDPs address industrial sector and subregional development issues, relying on input from regional and local economic development agencies.

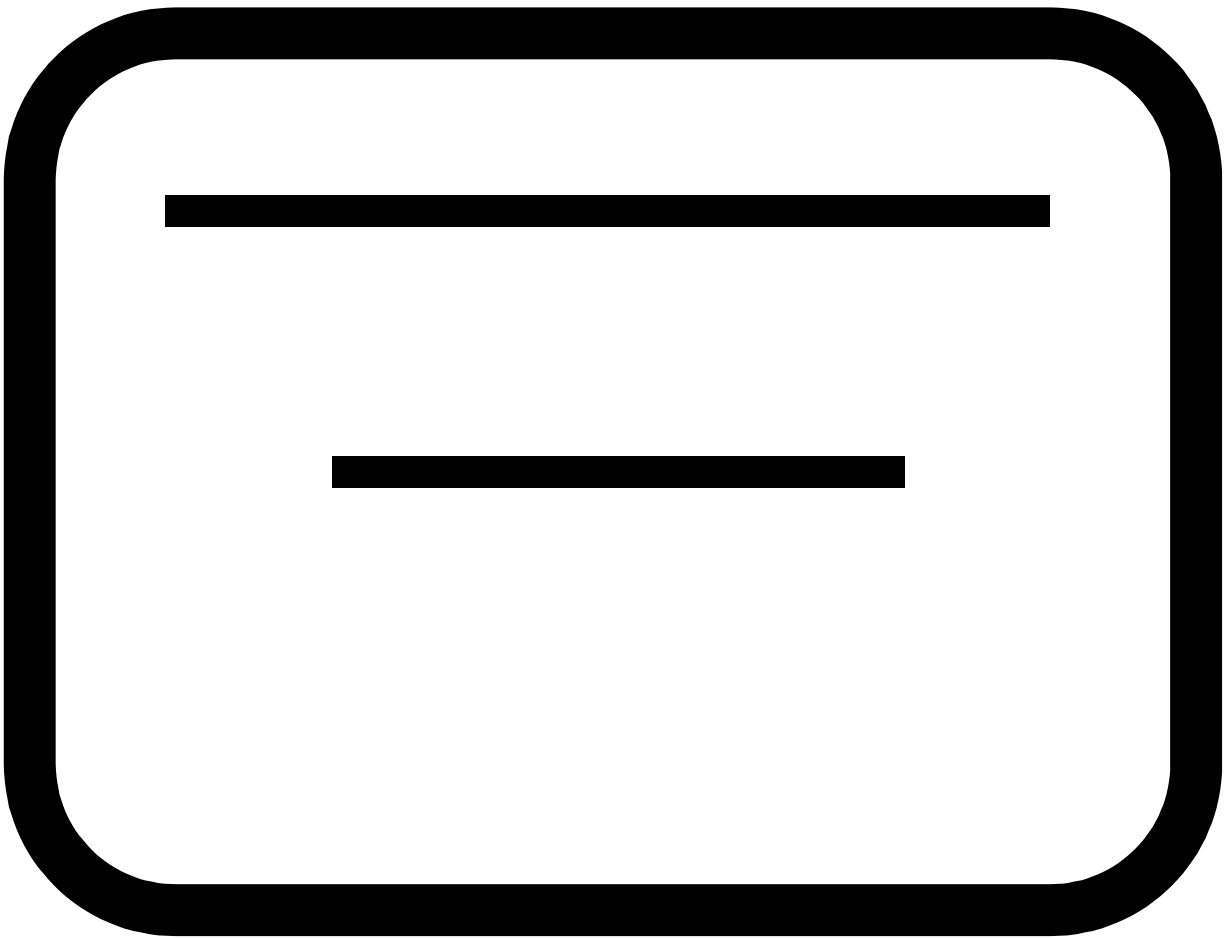
National Development Plans are to be a reflection of subregional and local development plans. Ideally, the subregional and local input should define the NDP. For this to occur it is necessary that alliances be developed between communities and regions so that the national government and the EU can hear a common voice.

³ A example of a multinational trade agreement is the North America Free Trade Agreement between Canada, the United States, and Mexico.

⁴ For detailed information on the Structural Instruments of the EU refer to Transition Report, European Bank for Regional Development, April 1998.

⁵ Ibid. p. 24.

Overheads



Local Development Board Membership Categories

Current:

- President of the County Council
 - Chamber of Commerce
 - Sibiu University
 - Nongovernmental Organizations:
 - German / Romanian Foundation
 - Local Development Consortium
 - Business Incubator Center
 - Local Government Representatives
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To be added:

- Business groups
- Banking sector
- Social Partners

Main Objectives of the Sibiu Development Agency

- Promotion of economic development strategies
- Setup of an institutionalized system for promotion, transparent implementation, and active dialogue
- Measures to accelerate the local development dynamic

Results After Six Months

- Sibiu Economic Development Strategy completed and waiting for adoption
- Sibiu International Airport Development Program Pre-feasibility study completed
- Sibiu Medieval Center (old city) rehabilitation program in progress
- Sibiu Industrial Park in progress
- Sibiu Tourists Information Center started
- \$1.2 Million Sibiu Asphalt Production Facilities started